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SAN JUDAS **MOLYBDENUM** CORPORATION LIMITED

ANNUAL REPORT/1968

SAN JUDAS **MOLYBDENUM** CORPORATION LIMITED

Directors

Jacques Angers, Rouyn, Quebec
D. Wendell Fentress, Chicago, Ill.
Murdock C. Mosher, Toronto, Ontario
Newton Turcot, Glenview, Ill.
Murray Watts, Toronto, Ontario

Officers

Murray Watts, President
Murdock C. Mosher, Vice-President
R. Y. W. Campbell, Secretary
G. A. Loader, Treasurer

Registrar and Transfer Agent

Guaranty Trust Company of Canada
Toronto, Ontario

Auditors

Cossar, Hector Payne & Co.
Toronto, Ontario

Solicitors

Day, Wilson, Campbell,
Toronto, Ontario

Head Office

Suite 420, 159 Bay Street, Toronto, Ontario

SAN JUDAS **MOLYBDENUM** CORPORATION LIMITED

Report of the Directors

It is a pleasure to send to shareholders this first annual report of your company, following its incorporation in April of 1967. This report, which reviews the company's activities and aims, also includes financial statements for the period from incorporation to December 31, 1968.

San Judas Molybdenum Corporation was formed to acquire 49% interest in a Mexican company, Compania Minera de Hermosillo, S. A., which holds mining claims in the state of Sonora, Mexico, covering deposits with mineralization bearing molybdenum, copper, gold and silver. Mining operations have already been carried out on the property, during 1965 to 1968 when some 9,700 tons of high grade molybdenum ore was removed for custom treatment.

At that time, a U.S. group of businessmen held the option to acquire 49% of the Hermosillo company and had paid \$100,000 in U.S. funds to Mexican shareholders under the terms of their agreement. It was early in 1967 that a Canadian group, including your president, agreed to advance up to \$100,000 in U.S. funds for an exploration program involving diamond drilling. This program was carried out and results were

summarized in a report by Watts, Griffis & McOuat Limited, consulting geologists and engineers.

The consultants' report noted drilling had outlined an orebody of about 250,000 tons grading 1.0% Mo which, on the basis of a preliminary feasibility study, should yield a cash flow of \$2,253,000 over an operation life of 3½ years. This is contingent on metallurgical studies determining that a concentrate grading a minimum of 95% molybdenite and containing not more than 0.2% copper can be produced, also that the grade and tonnage of the drill-indicated reserves can be confirmed.

Of this amount, San Judas would receive some \$883,000 after allowing for development tax. However, some favorable features regarding the Mexican taxation policies could result in this figure increasing to more than \$1 million.

An underground development and bulk sampling program will be carried out, along with additional metallurgical testing and market studies, in line with the consultants' recommendations. Total estimated cost of this phase of the program is approximately \$200,000.

Your directors believe the potential of the Hermosillo property is quite promising. Provided results of the current work are as anticipated, it is estimated the property can be placed into production at a rate of 250 tons per day for a capital cost of approximately \$1.8 million, exclusive of working capital.

In the meantime, supplies and equipment for the adit development work are being brought in; other orders have been placed in Mexico and the U.S. for additional equipment. A survey for water supplies will be conducted. It is presently envisioned that milling facilities would be located at Cumpas because of water availability. Cumpas is about 20 miles from the mine site.

Your company is well financed to conduct the program recommended, as a result of an underwriting on 250,000 treasury shares, at \$2 per share net to the company. An option was given on a further 125,000 shares, at \$2.50 per share, to the underwriter and this was exercised, to place a total of \$812,500.00 in the treasury of the company.

At the same time, under the terms of a secondary offering, the underwriter has an

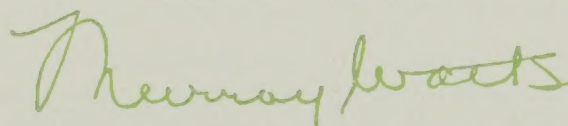
option to purchase up to 343,750 previously-issued shares, at price of 40¢, on a pro rata basis.

Further strengthening your company's capability in this project is the appointment of Mr. John M. Bracken, B.Sc., P.Eng., as manager at the property. Mr. Bracken has a distinguished experience in supervising mining development and operations, in Canada and abroad.

While the program carries forward at the molybdenum property, San Judas will initiate exploration elsewhere in northern Mexico. In the area to the northeast of the mine there is considerable activity with a number of major companies, including Anaconda and American Smelting & Refining, carrying out programs on copper prospects.

Shareholders will be informed of progress.

On behalf of the board,

A handwritten signature in green ink, reading "Murray Watts".

Murray Watts,
President.

May 27, 1969

SAN JUDAS MOLYBDENUM CORPORATION LIMITED

BALANCE SHEET AS AT 31 DECEMBER, 1968

(With comparative figures as at 31st August, 1968)

ASSETS

	<u>31st December</u>	<u>31st August</u>
Cash in bank	\$ 29,177.64	\$ 62,927.90
Accounts receivable	5,415.64	2,536.86
Investment in 98 Class "B" shares of Compania Minera de Hermosillo, S. A. — at cost — Notes 4 and 6	550,000.00	550,000.00
<i>Deferred expenditure recoverable — Note 6</i>		
Exploration and development	170,315.42	155,446.34
Administration	137,176.38	124,538.36
Organization expense	3,916.95	3,916.95
	<u>\$896,002.03</u>	<u>\$899,366.41</u>

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have examined the balance sheet of San Judas Molybdenum Corporation Limited as at 31 December, 1968 and the statement of deficit for the four months ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statement of deficit present fairly the financial position of the company as at 31 December, 1968 and the results of its operations for the four months ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds which, in our opinion, presents fairly the sources and application of funds of the company for the four months ended on that date.

COSSAR, HECTOR, PAYNE & CO.,
Chartered Accountants.

LIABILITES

	31st December	31st August
Accounts payable and accrued	\$ 53,281.89	\$ 46,618.77
Balance of purchase price of 98 Class "B" shares of Compania Minera de Hermosillo, S. A. — secured — Note 4	255,000.00	255,000.00
Debentures payable — 7% — secured — Note 5	429,759.26	429,759.26
	<u>\$738,041.15</u>	<u>\$731,378.03</u>

CAPITAL

Share capital — Notes 5 and 7

Authorized:

5,000,000 shares without par value

Issued and fully paid:

1,562,505 shares for cash or cash equivalent	\$250,005.00	\$250,005.00
150,000 shares for services	24,000.00	24,000.00
<u>1,712,505</u> shares	274,005.00	274,005.00
Deficit	116,044.12	106,016.62
	<u>157,960.88</u>	<u>167,988.38</u>
	<u>\$896,002.03</u>	<u>\$899,366.41</u>

Approved on behalf of the Board:

MURRAY WATTS, Director

MURDOCK C. MOSHER, Director

STATEMENT OF DEFERRED EXPENDITURES RECOVERABLE

For the Period from Incorporation to 31st December, 1968

	Four Months to 31st December	To 31st August
<i>Exploration and development</i>		
Analytical services	\$ —	\$ 3,151.90
Assaying	1,349.40	2,687.32
Auto expense	3,718.34	2,634.61
Camp equipment	—	814.65
Camp maintenance, etc.	2,416.92	1,375.35
Camp supplies	—	2,770.11
Consulting	1,202.50	13,221.65
Customs	—	9,482.90
Desert trailers	—	6,339.20
Drafting	—	2,920.59
Drilling charges	—	39,169.64
Drill equipment	—	1,137.99
Drill supplies	—	5,109.20
Engineering	148.70	13,529.67
Equipment rental	1,146.00	1,560.36
Fees and permits	913.20	4,040.76
Freight	—	846.92
General expense	977.26	6,683.88
Groceries	1,093.02	1,680.57
Local travel	891.91	4,074.15
Maps and reports	17.56	2,659.69
Metallurgical studies	—	3,134.15
Mining materials	2,276.92	1,439.32
Mobilization	—	3,800.00
Property flying	—	7,992.09
Property taxes	1,850.98	87.92
Rent	—	174.00
Wages	18,259.07	19,651.61
	36,261.78	162,170.20
Less: Sales of concentrate	21,392.70	6,723.86
		\$ 14,869.08
		\$155,446.34
<i>Administration</i>		
Accounting	502.81	2,668.06
Administration	2,777.77	33,866.69
Bank charges	52.34	591.07
Legal and audit	7,830.85	57,828.36
Local office expense	400.00	244.34
Secretarial	149.58	1,020.70
Telephone and telegraph	710.94	4,971.62
Travel	213.73	23,256.09
Transfer agent's fees	—	91.43
		12,638.02
		124,538.36
<i>Total deferred expenditures recoverable</i>		\$ 27,507.10
		\$279,984.70

STATEMENT OF SOURCE AND APPLICATION OF FUNDS AND CHANGES IN WORKING CAPITAL

For the Four Months Ended 31st December, 1968

(With comparative figures for the year ended 31st August, 1968)

	Four Months to 31st December	To 31st August
<i>Source of Funds</i>		
Sale of debentures	\$ —	\$429,759.26
<i>Funds Applied to</i>		
Exploration, development and administration on behalf of the Compania Minera de Hermosillo, S. A.	\$ 27,507.10	94,211.67
Purchase of shares of the Compania Minera de Hermosillo, S. A.	—	550,000.00
Less: Balance unpaid	—	255,000.00
	—	295,000.00
Debenture interest	10,027.50	6,016.62
	\$ 37,534.60	395,228.29
(Decrease) increase in working capital	\$(37,534.60)	\$ 34,530.97
Working capital (deficit) at beginning of period	\$ 18,845.99	\$(15,684.98)
Working capital (deficit) at end of period	(18,688.61)	18,845.99
(Decrease) increase in working capital	\$(37,534.60)	\$ 34,530.97

STATEMENT OF DEFICIT ACCOUNT

As at 31st December, 1968

(With comparative figures as at 31st August, 1968)

	31st December	31st August
Option payment forfeited	\$100,000.00	\$100,000.00
Interest on debentures	16,044.12	6,016.62
Deficit at end of period	\$116,044.12	\$106,016.62

NOTES TO FINANCIAL STATEMENT

31st December, 1968

NOTE 1

All amounts reported in the accompanying financial statement are declared in U.S. funds.

NOTE 2

Pursuant to a resolution of the Directors, the company's year-end has been changed from 31st August to 31st December, effective 31st December, 1968.

NOTE 3

Comparative figures for 31st December, 1967 are not available since the company was only recently incorporated at that time and had not begun operations or reached an agreement with the Hermosillo Company.

NOTE 4

The company has entered into an agreement whereby it purchased all 98 Class "B" shares of the Compania Minera de Hermosillo, S. A. from the then existing Class "B" shareholders for a total consideration of \$550,000 U.S. Of this amount, the company had paid, at 31st December, 1968, \$295,000 and has paid since 31st December, 1968, the balance of \$255,000.

NOTE 5

Debentures payable of \$429,759.26, which were increased to \$455,500 subsequent to 31st December, 1968, bear interest at 7% per annum from 18 June, 1968 and did carry the right for each debenture holder to purchase one fully paid and non-assessable share of the capital stock of the company at 15¢ U.S. per share until 17th February, 1969 for each \$1.00 U.S. advanced by the debenture holders. All rights have been exercised resulting in an additional 455,500 shares being issued for \$68,325.

The due date of the debentures is two years following the date of the completion of a mill for

the processing of molybdenum ore on the property of the Hermosillo Company or 18th June, 1971 at the latest.

NOTE 6

Under an agreement dated 29 March, 1968, it was agreed between the company and Compania Minera de Hermosillo, S. A. that the cash flow to be generated from the production and sale of ores and concentrates from the properties owned by the Hermosillo Company are subject to a first obligation or charge in favour of San Judas in an amount equal to the funds advanced by San Judas and for the expenditures by San Judas on exploration and development and for the purchase by San Judas of shares of the Hermosillo Company. Such cash flow over and above amounts required for the normal operations of the Hermosillo Company shall be first charged in favour of San Judas and paid to San Judas on a monthly basis as soon as practicable.

NOTE 7

Under an agreement dated 25th November, 1968, the company has, since 31st December, 1968, sold to an underwriter-optionee, 250,000 shares of the capital stock of the company for the sum of \$500,000 being at the price of \$2.00 per share, and 125,000 shares of the capital stock of the company for the sum of \$312,500, being at the price of \$2.50 per share.

NOTE 8

The company has not paid any remuneration to its Directors and/or Senior Officers since its incorporation other than payment of a total of 150,000 shares to Mr. Murray Watts, President of the company pursuant to the terms of an agreement dated 7th April, 1967, whereby Mr. Watts assigned to the company all right, title and interest in and to agreements dated 4th April, 1967, which agreements constituted the original option on shares of the capital stock of the Hermosillo Company.

U S A

Nogales

Douglas (Arizona)

Sta. Ana

MINERO DE SAN JUDAS
TADCO

Cumpas

Carbo

Ures

Hermosillo

Empalme

Guaymas

Ciudad Obregon

Navojas

SAN JUDAS

MOLYBDENUM CORPORATION LTD.

PROPERTY LOCATION MAP

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SINALOA

